



# THE MUSTAHIQ EMPOWERMENT MODEL: A COLLABORATION BETWEEN SHARIA BANK AND OPZ IN OPTIMIZING ZAKAT FUNDS

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## Abstract

**Purpose of the study:** To find a Zakat fund management scheme based on sharia banking for sustainable mustahiq empowerment.

**Methodology:** This research is qualitative research using grounded theory method.

**Main Findings:** Zakat funds collected are used as collaterals for deposits for the development of mustahiq businesses. The profit sharing ratio from the deposits will reduce the mustahiq installment expense. While deposit guarantees will make mustahik get financing easily from Islamic banking.

**Applications of this study:** The research findings can be used in studies on productive zakat, philanthropic studies and the development of Islamic banking.

**Novelty/ Originality of this study:** With this model, mustahik which is not bankable will receive financing for business development. On the other hand, mustahik will get payments in installments so that it will ease the burden.

**Keywords:** Zakat, Promotion, Islamic Banking, Empowerment, Mustahiq

## INTRODUCTION

Adult Muslims whose level of wealth has met the Nisab and Haul are entitled to give a portion of their wealth (zakat). With the largest Muslim population, Indonesia has a great deal of potential in terms of zakat fund. This is supported by the raising awareness among the Indonesian Muslims regarding zakat. According to National Zakat Agency ([Badan Amil Zakat Nasional/BAZNAS](#)) (2015), the total amount of zakat collected had increased from Rp. 1,500 billion (2010) to Rp. 3,650 billion (2015) with 35.72% average annual growth rate. BAZNAS also reported that the distributed zakat fund was Rp. 2,249 billion or 63 % of the total amount of zakat collected and it was distributed to 5,079,911 mustahiqs. Below is the categorization of zakat fund distribution by field in each level of BAZNAS:

**Table 1: Zakat Fund Distribution Field**

Agencies	Distribution Field (in Billion)				
	Economy	Education	Dawah	Health	Social
BAZNAS (national)	6.78	24.75	4.57	18.35	20.15
BAZNAS (province)	27.76	22.56	46.74	6.26	103.77
BAZNAS (district)	115.13	94.66	71.26	35.33	202.01
LAZ	165.46	290.1	180.98	128.74	520.11
Total	315.13	432.07	303.55	188.68	846.04
%	15.11%	20.72%	14.56%	9.05%	40.57%

The table above shows that 15.11% of zakat fund is distributed to the field of economy, 20.72 % to education and 40.57% to social. The distribution of zakat fund to the field of economy is specially-designed to provide positive support for the empowerment of the mustachios. Furthermore, the aforementioned increase is directly correlated with the increase in the level of support from the Government in the form of regulations such as Law number 23 of 2011 concerning Zakat Management and Government Regulation number 14 of 2014 concerning the Implementation of Law and Number 23 of 2011 concerning Zakat Management. These regulations designed as legal umbrella for zakat fund management in Indonesia have improved the level of trust of the people (zakat givers) and consequently increase the total amount of zakat fund collected every year.

There are many concepts in relation with the empowerment of mustahiqs. One of them is the concept of metamorphose. In my opinion, this concept provides the most efficient result, since it aims at transforming mustahiqs into muzakkir. Through empowerment, mustahiqs have the chance to change their initial position as alms-receiver to alms-giver in the later phase. This concept enables the distribution of zakat fund to make a direct impact in the eradication of poverty. The implementation of this concept involves many Zakat-receiving organizations to rely on entrepreneurship programs. These programs have proven to be an efficient medium in progressively improving the welfare of mustahiqs. However, the implementation of these programs involves several challenges - especially challenges in connection with quality and capital. In terms of quality, the products from the entrepreneurship programs of the mustahiq have a hard time in winning consumers' hearts since they were outperformed by similar products from more established businesses. In terms of the capital, the challenge lies in the effort to expand the scale of the business and improve its competitive edge.

The researchers believe that the solution for both the challenges is the collaboration between Islamic banking institutions and Zakat-receiving organizations for the empowerment of mustahiqs. This collaboration has the ability to provide both capital support and business development related advice for the mustahiqs (Wulandari & Kassim, 2016). Furthermore, another challenge that would surface is that the mustahiqs are not bankable – not qualified to receive any capital support provisioned by banks – since they have not fulfilled the requirements of 5 C (characters, capital, capacity, collateral and conditions) (Firmansyah, 2015). Among them, *collateral* is the most common problem in the business dealings of mustahiq since most of them do not possess any asset qualified as collateral (Sanrego & Antonio, 2013). Bearing these in mind, the writer aims at formulating solutions to materialize the collaboration between Islamic Banking and Zakat-receiving organizations for promoting sustainable empowerment for the mustahiqs.

## LITERATURE REVIEW

Syaiful and Suwarno (2015) analyzed the use of productive zakat as an economic empowerment tool. The research attempted at understanding the views of important people in the society on the use of productive zakat in supporting mustahiqs economic empowerment. The research found that most of the people are not aware of the empowerment of mustahiqs using zakat fund. This was inflicted by many preachers or religious group leaders releasing statements that forbid investments using zakat fund. This of course contradicts the fatwa (legal pronouncement in Islam) from Fiqh Council of OIC (Organization of Islamic Cooperation) that allows investment using zakat fund.

Widiastuti and Rosyidi (2015) had done research on the models of productive zakat empowerment in improving mustahiq income. The researchers found that zakat fund has the capability to serve as the medium to optimize mustahiq income. Providing loan without interest from zakat fund for mustahiq to start their business is one of the efficient models of zakat fund distribution. Entrepreneurship guidance and training from zakat-receiving organization have played an important role in improving mustahiq income. In addition, spiritual guidance practices have maintained the level of solidarity and spirituality.

Ibrahim and Ghazali (2014) in their research found that the effectiveness of productive zakat distribution for business capital was determined by reliable supervision and evaluation system of the Zakat-receiving organizations. Reliable supervision system encouraged mustahiq to commit and perform better. On the other hand, reliable evaluation system helped to make an informed decision on the continuity of the distribution. Providing productive funding is the right zakat fund distribution method in the effort of poverty eradication.

Rahman et al. (2013) concluded that the potentials of zakat fund in Malaysia were aligned to support the performance of Amanah Ikhtiar Malaysia (AIM). AIM distributed the fund using the scheme of profit and loss sharing in the eradication of poverty effort. This model initiated a strong connection between zakat fund and Amanah Ikhtiar Malaysia and created fund distribution that is more effective and productive than consumptive fund distribution is. AIM distributed the fund using profit and loss sharing scheme which is closer to the goals of poverty eradication.

Fauzia (2017) concluded that at first, Islamic philanthropy in Indonesia was managed in traditional manners and inclined to blindly follow classical fiqh. This created stagnancy in the development empowerment concept. Today, the practice of Islamic philanthropy is driven more by inclusive ideas that pave the way for modernization. Modern philanthropy possesses great potentials in providing answers for challenges connected to social justice. Transformation has benefited from dialogues with various NGOs, charitable foundation, and Zakat-receiving organizations. The future of social justice-oriented philanthropy depends on the stability of political and economic situations.

## METHODOLOGY

This is a qualitative research that uses grounded theory, i.e. “the research was started with data collection to determine specific theory” ([Budiasih, 2014, p.19](#)).

The researchers observed, collected and organized the data, and at the same time, based on the collected data, a theory was formulated. Initially, qualitative research with such method focused on the study area and collected data from various sources, by conducting interviews and making observations if necessary. In the next step, the data was analyzed using coding and theoretical sampling procedure ([Budiasih, 2014, p. 26-27](#)).

The research was conducted with the help of the data collected from various sources. The researchers interviewed the stakeholders from Zakat-receiving organizations, Islamic Banking practitioners and academicians specialized in the field of zakat, social empowerment and Islamic economics. The researchers also conducted observations on Zakat-receiving organizations and Islamic banking.

## DISCUSSION / ANALYSIS

### 1. Zakat and the welfare of Mustahiqs

“Etymologically, Zakat means nama’ (fertility), thaharah (clean), barakah (blessing) dan tazkiyah tathir (purify)” ([Ash Shiddieqy, 2009, p. 162](#)). It is now defined as “a certain amount of wealth that is given to the needy as an obligatory practice” ([Ryandono, 2008, p. 2](#)). Being temporary financial support for consumptive behaviors is not the primary goal of zakat. The primary goal of the distribution of zakat is improving mustahiq welfare and building their capability to independently and sustainably provide for themselves ([Saptia, 2013](#)). Law number 23 of 2011 concerning Zakat Management declared that the goal of zakat fund management is to improve the effectiveness and efficiency of zakat fund management service and promote the use of zakat fund in the effort of living standard improvement and poverty eradication. Zakat plays strategic role in the effort of poverty eradication. The flexibility of zakat, in terms of its collection and distribution, is its power. The poor can benefit from zakat which is given by more financially-established people in the same area. If we can make this work more effectively, we can boost the process of poverty eradication.

### 2. Role of Islamic banking in improving Mustahiq’s living standards

“Pursuant to the Law number 10 of 1998 concerning banking, bank is defined as a financial institution that collects funds from people in the form of deposit and distribute it as credits and/or as a part of improving public wellbeing” ([Kashmir, 2016, p. 24](#)). On the other hand, Law number 21 of 2008 concerning Islamic banking, Islamic bank is defined as sharia law-based bank. Muhamad (2002) defined Islamic bank as “financial institution focusing on providing funding and services in connection with payment traffic and money circulation and operating under the principles of sharia law” ( p. 1). In Indonesia, Islamic banking thrives in healthy speed. Below is the data obtained as on December 2016:

**Table 2:** Data on the number and assets of the Public Islamic Bank, Islamic Business (UUS), Islamic People’s Funding Bank (BPRS) Units in 2016

Description	Total
Total Assets of Public Islamic Bank	254,184 Billion
Total Number of Public Islamic Bank	13 Units
Total Assets of Islamic Business Units	102,320 Billion
Total Number of Islamic Business Units	21 Units
Total Assets of Islamic People’s Funding Bank	9,157 Billion
Total Number of Islamic People’s Funding Bank	166 Units

One of the major tasks of Islamic bank is distributing funding. At macro level, the purpose of funding is to improve the financial capability of the ummah, provide economic capital for businesses, increase productivity, provide jobs and create effective distribution. At micro level, the purpose is to maximize returns, minimize risks, take advantage of financial sources and distribute surplus fund (Muhamad, 2002).

In distributing funds, banks are entitled to conduct prudential banking by way of well-executed risk mitigation. As an institution that creates connection between surplus unit (funding) and deficit unit (financing), bank connects risks and, consequently, constantly deals with potential risks from fund collection phase through third parties to funding distribution phase ([Wahyudi, 2013](#)). Banking risks are potential lost, whether financial or non-financial, as a direct or

indirect consequence of risk events ([Rustam, 2013](#)). Banking risks are impossible to be completely eliminated, but they can be minimized through risk mitigation.

Islamic banking formulated risk mitigation on funding using 5Cs (characters, capital, capacity, collateral and condition). Character is the main element of the funding analysis which focuses on understanding the customers' commitment to fulfill their obligation. Capital is the element correlated with financial capital covering customers businesses. Capacity is the element that is analyzed to provide banks with assurance that the customers have the capability to run their businesses and fulfill their obligation. Collateral is a warranty given to banks as a second way out if the customers' business fails to survive. Condition is the situations related to the customers and their businesses that determine the prospects of the businesses ([Muhammad, 2011](#)).

As sharia law-based institutions, Islamic banks have important role of improving mustahiqs wellbeing. Mustahiqs as a party are entitled to receive zakat fund and have the chance of being fully empowered if they are provided with access to Islamic banks. Today's challenge is that most of mustahiqs are not bankable. It creates difficulty in providing them with the service they need. Most of mustahiqs lack financial capital, collateral and business expertise which are required by banks before providing any form of funding. At this point, both mustahiqs and banks need Zakat-receiving Organizations (OPZ). In the next phase, the fund collected is deposited and redistributed to mustahiq. In this manner, every fund distributed to mustahiq is covered by zakat fund.

The above scheme enables mustahiq to be creative and grow their business accordingly. Then, unlike today's situations, difficulties in accessing financial capital will be a thing of the past. Islamic banking will in full confidence provide fund for mustahiq since every fund is covered by deposited zakat fund with back to back scheme.

### 3. Mustahiq Empowerment Model

First, empowerment is defined as an effort to drive results and benefit; second, an effort with various types of power to successfully perform duties ([KBBI, 2017](#)). As literally described in the dictionary, the use of zakat fund aims at optimizing zakat fund management in pursuance of better result and benefits for mustahiq. There are many branding put on the use of zakat fund by zakat-receiving organizations in the execution of mustahiq empowerment program.

Empowerment originates from the word empowered which means having power; having energy; having ideas (means and others) to overcome things. Empowerment means the process, manner, and the conduct of empowering ([KBBI, 2017](#)). The distribution of zakat fund to mustahiq has to be empowerment-oriented. Only then, mustahiqs will possess adequate competence and quality to independently provide for themselves. Only then zakat fund can transform mustahiq who receive zakat into muzakkir who is entitled to give zakat. When zakat-receiving organizations are able to put the concept of empowerment into practice in zakat fund distribution, the zakat fund will become productive zakat.

Semantically, productive means producing something abundantly, giving more results, producing precious items abundantly resulting in better output. In the field of literature and scientific writing, the word productive is widely used as an adjective. As an adjective, it is only comprehensible when put together with a noun described. In this case, the noun described is the word zakat. Therefore, productive zakat means zakat that is distributed productively and non-consumptive. Productive zakat enables the recipients to produce something in continuous fashion. They optimally benefit from the fund they receive. In other words, productive zakat is zakat or portion of wealth from muzakkir that is not meant to be consumed excessively. Instead of being consumed only for fulfilling daily needs, the fund is directed to further develop and support mustahiq businesses which will be their source of income to cover their daily expenses independently and sustainably ([Widiastuti & Rosyidi, 2015](#)).

The empowerment of mustahiqs by way of Islamic banking-based productive zakat program provides efficient support for poverty eradication ([Adnan & Ajja, 2015](#)). However, in terms of mustahiq business management, an age-old challenge stands before us, which is lack of supervision and guidance ([Ibrahim & Ghazali, 2014](#)). These problems create stagnancy in zakat fund-supported businesses and make growth difficult. They lost in local, regional and national market from more established businesses since these businesses do not possess adequate competitiveness. Products of mustahiq businesses are unable compete with similar existing products and new products in the market. With the strategic role of guidance, mustahiq businesses will be able to have the competitiveness required and produce items which are better in terms of quality, quantity, branding and marketing edge. This type of guidance can only be realized through the collaboration of Zakat-collecting organizations and Islamic banking.

Law number 21 of 2008 concerning Islamic banking stated that Islamic banking shall support national development in actualizing social justice, unity and equality. In fact, the purpose of Islamic banking is in line with the goal of zakat which is to create social equality. The special role assigned to Islamic banking is providing economic capital and guidance for mustahiq businesses. As stated earlier, Islamic banking applies the principles of 5Cs (characters, capital, capacity, collateral and condition) as the basis for providing economic capital. For a long time, among the 5 requirements represented by these buzzwords, the element of collateral never ceased to be the biggest challenge since most of mustahiqs lack assets qualified to be put forward as collateral. In short, they are non-bankable.

Using productive zakat program, the fund collected as zakat by Zakat-receiving organization can be proposed as collateral to banks. The fund is mortgaged to Islamic banks in the form of deposit or cash collateral for capital received by mustahiq. Following the capital received from them, Islamic banks then have to provide guidance for the receivers of the fund and help them develop their business. The guidance includes business management activities such as accounting, profit projection, risk mitigation, marketing and others. In such a manner, they can provide moral support. It also encourages mustahiq to be more committed in managing the businesses since the initial capital of their business does not come from zakat fund but from Islamic banking. Islamic banking plays an important role in this collaboration because Indonesia Deposit Insurance Corporation (Lembaga Penjamin Simpanan/LPS) requires collateral for the deposit of Zakat-receiving organizations (Zulkarnaen, 2014).

Based on the results of the observation, we can draw several effective models of mustahiqs empowerment. The list is in the table below:

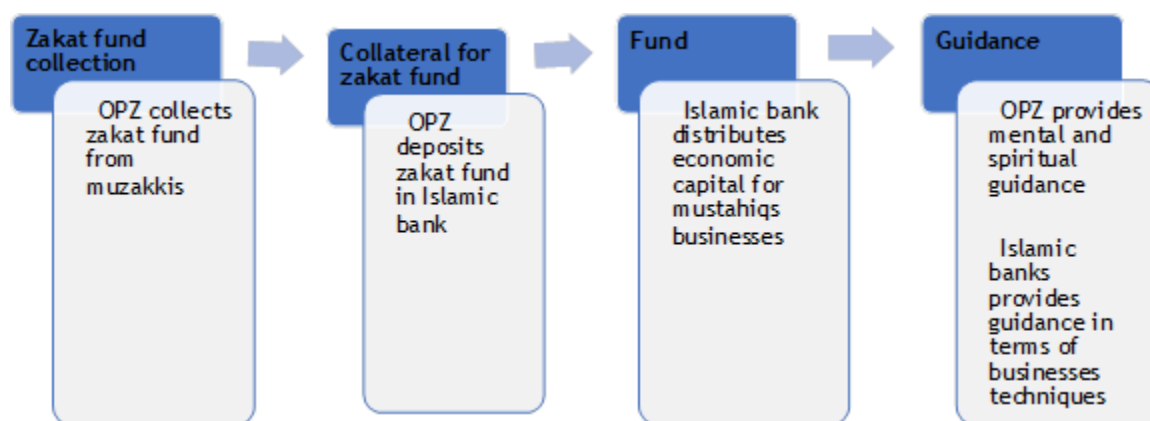


Figure 1. Collaboration Scheme between Islamic Banking and OPZs

This model is considered to be effective because:

- Zakat-receiving organizations mainly focus on providing mental and spiritual guidance and do not need to be involved in the business management techniques of education.
- Islamic banking only provides technical guidance for mustahiq businesses and help them improve their quality and production capacity for sustainable business.
- Mustahiqs are more committed towards managing their business since they understand that it is the bank that provides the capital.
- Mustahiqs transform into loyal customers for the bank as their businesses grow.

Zakat fund-based cash collateral has solved the problem of non-bankable mustahiq and the fund is deposited in Islamic bank by the OPZs.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

- Collaboration between OPZs and Islamic Banking contribute positively towards empowering mustahiq sustainably.
- In such collaboration, OPZs deposited zakat fund in Islamic banks as collateral for the capital distributed to mustahiq.
- Islamic banking plays an important role of providing guidance and supervision in relation with mustahiqs business development.
- Business guidance and development enable mustahiq to transform themselves into muzakkir.



- e. The mustahiq-to-muzakki transformation also creates loyal customers for Islamic banking.

### Recommendations

- Zakat-receiving organizations (OPZ) should collaborate with Islamic banking in the management of zakat fund.
- The government should support the programs of Islamic banking-based zakat fund management.
- Islamic banking should involve more actively in providing guidance for mustahiq.

### LIMITATION AND STUDY FORWARD

This research is limited in its scope of zakat. Recommendations for further research involves developing applications for cash waqf development and other community empowerment.

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